

PROPOSED FY2005 STATE BUDGET FOR THE  
MARYLAND TECHNOLOGY DEVELOPMENT CORPORATION

Testimony presented to the  
House Appropriations Subcommittee on Education and Economic Development  
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by  
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Chairman Proctor, Vice-Chairman Turner, members of the Committee, thank you for the opportunity to brief you on the progress and potential of the Maryland Technology Development Corporation. I am joined today by members of our Board of Directors, technology companies that have received TEDCO seed investments, and representatives of the Department of Budget and Management (DBM) and the Department of Business and Economic Development (DBED).

As you know, the General Assembly created TEDCO in 1998 to serve as a central focus for business assistance across the entire State through the transfer and commercialization of technology. TEDCO is a public instrumentality, a quasi-independent corporation, overseen by a highly qualified and diverse Board of Directors, appointed by the Governor and confirmed by the Senate. This structure enables it to act in a flexible and responsive manner, while still providing transparency and accountability to the State. The Corporation now functions as the specialized technology transfer and commercialization arm of DBED, working in close coordination with the Department.

Over the years, you and your colleagues have been the most steadfast advocates for this program and consistently provided the funds essential to the success of this program. I believe we have fulfilled the trust you have placed in this organization.

The Administration has recommended Program and Operations Funding for TEDCO of \$5,750,000 (and \$1,500,000 in capital funds for Technology Incubation Facilities). This budget was developed with the strong support of DBED Secretary Aris Melissaratos and under the close supervision of DBM.

I want to address six questions:

1. What is the need for technology based economic development in Maryland?
2. What has been TEDCO's performance?

3. What economic development investments will the proposed budget support?
  4. How does Maryland compare to its competitor States?
  5. How will TEDCO be measured and held accountable for its performance?
  6. What are the minimum financial requirements for a credible and sustained program?
1. What is the need for technology based economic development in Maryland?

The recently released report of the Governor's Commission on the Development of Advanced Technology Business ("Pappas Commission") comprehensively sets forth the State's technology development strategy, and identifies a prominent role for TEDCO in the early stages of technology transfer and commercialization.

Technology based economic development is critical to the future of Maryland. As stated by the Pappas Commission:

"As the national and global economies continue shifting towards new industries, technologies and methods of production, the development of an advanced technology economy is essential for securing Maryland's future economy and competitive position with other states. Advanced technology companies create high quality, higher paying jobs. This creates a ripple effect throughout the economy, creating a broader and deeper tax base that is better able to sustain the state through future challenges....Specific recommendation have been prepared for actions that, in the judgment of the Commission, will:

- make Maryland more competitive in attracting and growing technology companies;
- increase substantially the commercialization of research and development being created by the many government laboratories and universities within Maryland's borders..."

(Attachment A contains excerpts from the Pappas Commission identifying TEDCO's role.)

The DLS analysis clearly describes the problem: Maryland leads competitor States in federal research and development resources; however commercialization of the technology lags behind. "Although Maryland receives more federal funds and performs more R&D than its competitor states, the federal laboratories and universities have not been as efficient in commercializing their technology. As a result, Maryland ranks in the middle for technology commercialization against its competitor states." (p.14)

2. What has been TEDCO's performance?

The impact of TEDCO's investments in technology development and commercialization activities is substantial and tangible. One of the best and earliest measures of technology development potential is the ability to attract third-party investments in State projects:

- 15 start-ups, receiving \$890,000 in TEDCO seed investments, have already leveraged \$19,500,000 in follow-on funding;
- \$3,097,500 in non-State funding to organizations and companies was generated by TEDCO in its first three years of activity; already in FY04, TEDCO was instrumental in securing an additional \$3,650,000 in funding from the Army, Navy, SBA, USDA and NSF, in support of the State's technology development goals (see DLS analysis, Exhibit 3 "Outside Funding Sources," p. 14); and
- \$2,400,000 in capital investments in three technology incubators leveraged over \$8,400,000 in other funding.

TEDCO's partners in the university and private sector communities strongly support the programs of the organization. Attachment B collects letters written on behalf of TEDCO to the members of the Committee.

3. What economic development investments will the proposed budget support?

- Investments in 35 start-up companies working with universities and fed labs
- Funding of 15 university R&D projects with commercial potential
- Cost sharing of 100 new patent applications, bringing the State's universities up to the national average
- Support for "best practices" at 12 technology incubators, assisting 100 companies
- Creation of a federal/state incubator company loan fund assisting 15 companies
- Sponsorship of 6 technology showcases at federal labs, attracting 1,000 attendees
- Leveraging of federal funding with target of \$2.0 million
- Assisting 100 companies seeking federal R&D grant opportunities
- Completion of funding of \$8.0 million capital pool for technology incubators, capable of stimulating 8-10 new or renovated facilities

These activities will attract further capital into the State's companies and organizations: ***By the end of FY2007, TEDCO programs and projects will have attracted a minimum of \$23,400,000 in cash commitments.***

4. How does Maryland compare to its competitor States?

As measured by independent benchmarks, Maryland still lags our regional competitors in technology development investments:

- Pennsylvania's Ben Franklin Partnership regularly receives \$28 million in general funds; *if TEDCO received proportional per capita funding, it would receive \$12 million annually;*
- Washington State's Technology Center analyzed leading States and found an average investment \$4.75 per capita for a broad range of technology development programs, equivalent to DBED's Investment Programs, UMCP's MIPs program, and TEDCO. *If Maryland provided funding at this level these programs would receive \$25 million annually; currently these programs are funded at approximately \$12 million;* and
- Virginia Center for Innovative Technologies, despite three years of budget cuts, is proposed to receive \$5.8 million for programs and operations, **still exceeding TEDCO's budget.** (Although the two organizations have comparable budgets, Virginia's organization has a staff of 30 people, while TEDCO only has 10 full time employees.)

The *Maryland Innovation and Technology Index – 2003* compared the State to regional competitors from Massachusetts to North Carolina and found that:

“Even where Maryland's metrics are improving, they are not sufficient to surpass its competitors and change its rankings. Small wonder. Its neighbors are not standing still. Even with severely constrained budgets, other states are sustaining their investment in technology based economic development.”

The long term goal of State policy should be to achieve parity with competitor States. The proposed FY05 budget begins to move in that direction; however, despite the proposed increase, in FY05 the funding gap remains at nearly \$5 million.

5. How will TEDCO be measured and held accountable for its performance?

In conjunction with this specific budget recommendation, TEDCO and DBM have been working closely to develop a model three-year “Performance Agreement.” TEDCO's performance (“return on investment”) will be rigorously evaluated through quarterly and annual reports, audited financial statements, and independent assessments of quantitative program outcomes in six major categories:

- Technology transfer (e.g., disclosures, patent applications, CRaDA's)
- Technology development (e.g., successful R&D)
- Technology commercialization (e.g., new business formation)
- Capital attraction (e.g., private equity, R&D grants, facilities funding)
- Technology employment (e.g., cumulative new job creation)
- Technology diversification (e.g., assistance to disadvantaged business and companies in underserved areas)

(Note that this Performance Agreement builds upon the existing statutory reporting requirements of TEDCO, which currently provide for annual reports on operations and audited financial statements to the Administration and General Assembly.)

6. What are the minimum financial requirements for a credible and sustainable program?

Let me conclude with a few specific comments about the DLS recommendation. First, we appreciate the effort that Stacy Porter has made to learn about TEDCO's programs. We look forward to continuing to work with her in the future, and developing the same relationship we have developed with other DLS staff.

TEDCO's ability to carry out the legislative mission that you have entrusted to it and to effectively position the State as a national leader in technology development requires a level of predictable funding competitive with other states and commensurate with the opportunities in Maryland. To achieve this, Maryland needs a nationally credible and sustained technology investment strategy. The quantitative benchmarks previously described set the standard.

Although members of TEDCO's Board of Directors and of the General Assembly believed that from the start the organization was under-funded, it was accepted that TEDCO would have to demonstrate its effectiveness and efficiency. The Board of Directors believes the organization has done so.

Despite the reduction in funding to TEDCO in FY04, the Board of Directors instructed staff to prepare a transition budget that would enable the organization to maintain its core capabilities while the new Administration developed a strategy and re-assessed the role of TEDCO. The Pappas Commission has done the former, and DBM's ground-breaking Performance Agreement does the latter.

The DLS recommendation fails to take into account any of these broader considerations, particularly the gap in funding between Maryland and its competitor States. The proposed reduction of \$680,000 in support for start-up companies loses the State at least 10 times that amount - \$6,800,000 - in outside capital for technology development. We strongly urge the Committee to recognize the contribution of TEDCO's flagship tech transfer seed funding programs and support the proposed level. However, in light of the State's fiscal condition, we reluctantly concur with the recommendation to defer initiation of the incubator company loan program.

More disastrous is the recommendation that TEDCO terminate 4 of its 10 employees, and remove any contribution to 401k pensions of the remaining staff. This recommendation completely misunderstands the critical role of TEDCO's highly efficient technical and professional staff in managing and monitoring a large and diverse program.

In FY04, of the 10 FTE's, only two-thirds of the salaries are funded in the current budget; the remainder are funded by one-time federal grants and program income. The Board of Directors approved this budget with the understanding that it was not a sustainable structure; the Administration agreed and in FY05 provided funding adequate to support the current staff.

Eighty percent (80%) of TEDCO's State budget flows through to companies and investments, and three-quarters of the time of TEDCO's staff is spent in providing technical assistance to entrepreneurs, conducting due diligence on proposals, and monitoring for up to five years funded projects to ensure compliance with State requirements, including payback provisions. TEDCO's overhead is less than 5% of the total State budget.

In addition to many other program responsibilities described in our budget material, staff is managing an investment portfolio of 80 R&D projects. In FY05, the portfolio will grow by 65 projects – with the same 10 FTEs. With potential federal grants, TEDCO will manage an additional 25 projects. TEDCO can manage the growth in the FY05 budget without any increase in full time personnel.

TEDCO employees are not State employees and do not enjoy the protections or benefits (e.g., pensions) of the civil service; all employees serve at the pleasure of the Board and can be dismissed without cause. Employees do not receive automatic annual increases, and have received no COLA's for the past three years. In accordance with similar non-profit organizations, TEDCO provides an 8% contribution to employee 401k accounts. Staff reductions and elimination of a standard – and modest – 401k contribution will devastate the organization's ability to attract and retain competent and reliable staff.

Accordingly, we strongly oppose the recommendation that funds for salaries and wages and 401k pension contribution be reduced.

Thank you again for your years of support and for the opportunity to testify before the Committee. I am pleased to answer any questions.